

PRACTICE NOTE 10: AUDIT OF FINANCIAL STATEMENTS AND REGULARITY OF PUBLIC SECTOR BODIES IN THE UNITED KINGDOM (REVISED 2024)

INVITATION TO COMMENT

Deadline for response: Friday 20 September 2024

Mae'r ddogfen hon hefyd ar gael yn Gymraeg | This document is also available in Welsh.

INTRODUCTION

1. The Public Audit Forum (PAF)¹ has been designated by the Financial Reporting Council (FRC) as a 'SORP-making body' for the purposes of maintaining and updating Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom* (PN 10). Under 'SORP-making body' arrangements, the PAF is responsible for preparing and consulting on revisions to PN 10 prior to seeking the FRC's endorsement that there is nothing within the Practice Note that is inconsistent with auditing standards or the FRC's wider objectives.
2. The PAF is now inviting comments on the accompanying consultation draft of the revised PN 10 following agreement from the FRC to consult publicly on the proposed changes.

BACKGROUND

3. PN 10 sets out how auditors of public sector bodies in England, Scotland, Northern Ireland and Wales apply auditing standards to their work on financial statements. The aim of the Practice Note is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. PN 10 also provides guidance on the approach to the audit of regularity.
4. The Practice Note focuses on the audits of financial statements and so is not relevant to public sector audit work on, for example, arrangements to secure value for money in the use of resources. Such work is subject to specific requirements in relevant Codes of Audit Practice and other guidance issued by the public audit agencies across the UK.
5. PN 10 was last revised in 2022 and there is a need to ensure the Practice Note is updated to take account of changes to International Standards on Auditing (UK) (ISAs (UK)), principally ISA (UK) 600 (Revised September 2022) *Special considerations – audits of group financial statements (including the work of component auditors)*, which comes into effect for audits of financial statements for periods commencing on or after 15 December 2023 (equating to the 2023-24 financial year for most public sector bodies). Changes have been made to the draft PN 10 (2024) to reflect the updated standards.
6. The consultation draft contains new guidance that where the auditor disclaims their opinion on the financial statements, the auditor consequently:

¹ The Forum's members are Audit Scotland, Audit Wales, the National Audit Office (NAO) and the Northern Ireland Audit Office (NIAO).

- a. does not report under paragraph 21-1 of ISA (UK) 570 within a 'Conclusions relating to Going Concern' section of the auditor's report, even if they are able to apply the continued provision of service approach to going concern; and
 - b. disclaims their opinion on regularity (where one is provided).
7. The guidance on ISA (UK) 600 has been updated to reflect the September 2022 revision of the standard. This reflects:
 - a. the revised objectives of the auditor; and
 - b. the removal of the concepts of component materiality and of non-significant components.
8. The ISA (UK) 600 section also includes revised guidance covering the scenario where combined financial statements include the financial information prepared by a large number of components whose financial information is individually immaterial, and over which significant classes of transactions, account balances and disclosures are disaggregated, but whose financial information is material in aggregate to the group financial statements. This sets out that:
 - a. where there is a degree of homogeneity between all the components or between specific sets of components, it may be possible to identify and assess risks of material misstatement of the group financial statements by considering these components or sets of components on an aggregated basis in the context of group performance materiality; and
 - b. in this scenario, where it is necessary to perform audit procedures at selected components, the auditor may use the audit sampling principles in ISA (UK) 530 to inform their professional judgement regarding the determination of the components at which audit procedures are to be performed.
 - c. An example is provided for how the group engagement team for a sector consolidation may apply this guidance.
9. Following on from this 2024 revision, the PAF intends to keep PN 10 under regular review to consider each year whether any further revisions are needed as a result of new standards and developments in auditing practice:
 - a. The FRC's Revised Ethical Standard 2024, replacing the Revised Ethical Standard 2019, will become effective on 15 December 2024. Auditors may complete engagements relating to periods commencing before December 2024 in accordance with existing ethical standards, putting in place any necessary changes in the subsequent engagement period. Therefore, guidance relating to the Revised Ethical Standard will be updated for the 2024 Standard in a future revision of PN 10.
 - b. ISA (UK) 505 (Revised October 2024): *External confirmations* will be effective for audits of financial statements for periods commencing on or after 15 December 2024. There is no specific guidance on applying ISA (UK) 505 in the current version of PN 10. Since the revised standard will not be effective for most public sector entities until their 2025-26 audits, the PAF will consider whether guidance relating to the revised standard should be included in a future revision of PN 10.

- c. The prospective ISA (UK) 250 (Revised): *Consideration of laws and regulations in an audit of financial statements* and ISA (UK) 2X0: *Special considerations for public interest entities – communicating and reporting to an appropriate authority outside the entity*, replacing the current ISA (UK) 250 (Revised November 2019) Section A and ISA (UK) 250 (Revised November 2019) Section B, are, if adopted by the FRC, proposed to be effective for audits of financial statements beginning on or after 15 December 2024. This would mean these standards becoming effective for most public sector entities for their 2025-26 audits, and guidance relating to these standards, if adopted, will be included in a future revision of PN 10.

10. Further iterations of PN 10 will respond to future changes in standards as appropriate.

IMPACT ASSESSMENT

11. As a Practice Note is guidance to support best practice, and is not prescriptive, the PAF has not completed a separate impact assessment. This is because the revised Practice Note does not impact on the level of auditor's work-effort required under auditing standards and because the level of work effort required in relation to regularity, where this required, is in line with existing practice.

INVITATION TO COMMENT

12. The accompanying exposure draft has two main parts:
 - Part 1: Application of auditing, quality management and ethical standards
 - Part 2: The audit of regularity
13. While these parts provide the main content on which respondents to this consultation will wish to focus, it would also be helpful to have any other comments on the material in the proposed PN 10, including the glossary.
14. The Annex to this consultation document includes a more detailed summary of the proposed revisions to PN 10.
15. Respondents are invited to provide comments in response to the following consultation questions and are also invited to add any other additional comments they think it would be helpful for the PAF to consider when finalising the proposed revisions to PN 10.
16. Comments from all interested parties are welcomed. The PAF particularly invites comments from those representing users of public sector financial statements.

CONSULTATION QUESTIONS

Question 1: New guidance has been added on consequences for going concern and regularity reporting of the auditor disclaiming their opinion on financial statements. **Do these additions provide appropriate and useful guidance on additional actions for auditors to take where they disclaim their opinion on financial statements? What changes should be made, if any?**

Question 2: This version of Practice Note 10 includes changes to the section on ISA (UK) 600, reflecting changes in the September 2022 revision of the standard. **Do you consider the revised draft provides appropriate and useful guidance on audits of group financial statements in the public sector? What changes should be made, if any?**

Question 4: The section on the audit of regularity reflects existing practice in the public sector. **Do you consider that the guidance in Part 2: The audit of regularity is appropriate, sufficient and applicable to all parts of the public sector? If not, what changes would you like to see made and why?**

Question 5: The consultation draft includes other changes, as outlined in the Annex below. **Do the other changes that have been proposed contribute to the objective of providing useful and appropriate guidance for public sector auditors? If not, how could these be improved?**

Question 6: **Are there any other changes you believe would be appropriate? If so, what changes would you like to see made and why?**

Question 7: The Auditor General for Wales and Audit Wales are required to comply with Welsh Language Standards that provide for the Welsh language not to be treated less favourably to the English language in Wales and for individuals to be able to access public services in Wales though the Welsh or English languages. **Do you consider there to be anything in this consultation draft that undermines these requirements? Do you consider there is any revision that could be made to support the use of the Welsh language?**

COMMENTING ON THE PROPOSALS

17. The PAF has established a project team to develop the revisions to PN 10. PAF's project team would prefer to receive letters of comment in an electronic form that facilitates "copy and paste". These may be sent by e-mail to:

PracticeNote10@public-audit-forum.org.uk

or

NodynYmarfer10@public-audit-forum.org.uk

18. Responses should be sent so as to be received **no later than 5pm on Friday 20 September 2024**. All comments will be regarded as being on the public record unless otherwise requested. **The PAF intends to publish the text of responses to this consultation, including the names of the organisations or individuals submitting responses, on its website, <https://www.public-audit-forum.org.uk/>.**
19. Consultation responses may be provided in either English or Welsh.

ANNEX: SUMMARY OF CHANGES FROM 2022 VERSION

Section	Updates
General	Minor typographical and formatting changes. Paragraph numbering has been updated.
Contents page	Updated for other content changes.
Preface	Amended commentary on the updates made since the previous revision of PN 10.
Part 1	
ISA (UK) 570	Added paragraph 1-181, which states that if the auditor disclaims their opinion on the financial statements, even if the auditor is able to apply the continued provision of service approach to going concern, the auditor does not report under paragraph 21-1 of ISA (UK) 570 within a 'Conclusions relating to Going Concern' section of the auditor's report.
ISA (UK) 600	<p>Updated the objectives of the auditor to reflect the September 2022 revision of the standard.</p> <p>Deleted paragraph 1-188 from the 2022 revision of PN 10, which related to circumstances where the group auditor uses the work of component auditors and determines the component materiality (since there is no longer a concept of component materiality in the revised standard).</p> <p>Amended the guidance on combined financial statements which include the financial information prepared by a large number of components whose financial information is individually immaterial, and over which significant classes of transactions, account balances and disclosures are disaggregated, but whose financial information is material in aggregate to the group financial statements, as follows:</p> <ul style="list-style-type: none"> • Amended paragraph 1-191 from the 2022 revision to reflect the fact that such financial statements are group financial statements within the scope of the revised standard, and the auditor no longer merely applies the principles in ISA (UK) 600 to these. • Deleted paragraph 1-192 from the 2022-23 revision of PN 10, which related to component auditors facilitating access to the auditor of the combined financial statements, since such financial statements are group financial statements within the scope of the revised standard, and the auditor no longer merely applies the principles in ISA (UK) 600 to these. • Amended the guidance in the 2022 revision of PN 10 on the circumstances where combined financial statements consist entirely of a large number of non-significant components (since there is no longer a concept of non-significant components in the revised standard). Guidance is now provided on the circumstances where combined financial statements consist entirely of a large number of small components over which significant classes of transactions, account balances and disclosures are disaggregated and which are material in aggregate to the group financial statements.
Part 2	
Regularity opinion	Added paragraph 2-86A, which states that where the auditor disclaims their opinion on the financial statements, the auditor also disclaims their opinion on regularity.